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SUBJECT: DR. BOUTROS-GHALI'S THOUGHTS ON WHAT LAYS AHEAD FOR IMFC

REF: A. CAIRO 1201

[B.](#) CAIRO 1036

[C.](#) CAIRO 1021

[¶](#)1. (U) Below is the text of a letter to Treasury Secretary Henry Paulson received July 13, 2008 regarding Finance Minister Youssef Boutros-Ghali thoughts on the International Monetary Finance Committee (IMFC). Post is forwarding hard copies directly to Secretary Paulson via fax.

[¶](#)2. (U) Begin text:

The Honorable, Mr. Henry M. Paulson, Jr.
Secretary of the Treasury
United States of America

Cairo, June 27, 2008

Your Excellency,

Pursuant to my letter of June 1st, 2008, permit me to share with you some thoughts regarding the work that lies ahead for us in the IMFC.

I have been following closely the activities of the Fund for over two decades, following several years in the institution as a staff member where I was engaged in surveillance, policy development and negotiating Fund arrangements in a number of regions. Thereafter, as a cabinet minister in several governments, I continued to be involved with the Fund in various capacities, this time on the receiving end of various Stand-by Arrangements, debt rescheduling and, most recently, extremely effective technical assistance in the area of fiscal reform and tax policy.

Throughout the eighties and for most of the nineties, the Fund played a crucial catalytic role in maintaining global stability and ensuring the integrity of the financial system at large. Today the global system has witnessed many changes, including in particular changes in the basic architecture of the world economy as well as the international financial system.

These changes require us to refocus the Fund's activities and resources, to re-equip the institution to become an effective catalyst in dealing with any systemic threats to global macro-stability with a clear mandate, clear instruments, and modalities of assistance to suit the changing world economy. This process has started, and I believe the efforts of the Managing Director should be supported and further developed.

While the Fund appears to have had a set back in recent years, not entirely as a result of its eroding financial transactions with members, I believe we should all work to ensure the Fund remains relevant and well-equipped to promote global stability. I strongly believe that the organization is eminently capable of addressing the changing global economic environment with its many new players and challenges. In particular, financial turmoil emerging from major developed countries, spilling over into the real sector and globally, requires the Fund to develop new tools to address the ramification of this change, in order to regain its relevance, credibility, and legitimacy: a strong institution, one that can

quickly adjust its approach, tooling and staffing to meet the challenge is a necessity. I therefore believe our priorities should center around the following specific areas.

The recent and still ongoing financial crisis, triggered by the sub-prime market in the United States, has not as far spilled into emerging market economies significantly. However, this should not lead us to complacency. The crisis may not have, in my view, fully worked itself out through the global economy. The Fund needs to address a number of issues associated with this crisis; issues of global risk management, coordination among Central Banks in the provision of emergency liquidity support, coordination among other financial supervisors in addressing problems of transparency, rating consistency, sovereign wealth funds, as well as other challenges for which the Fund needs to develop an appropriate discourse and instruments of assistance.

The crisis has been further aggravated by the sharp increase in food and commodity prices, raising the specter of inflation not only in the industrial countries but in most developing countries. Energy price increases have initiated a major global structural shift of resources from energy importers to energy exporters - a shift estimated at almost 5 percent of global non-oil output. In emerging market economies, particularly lower income countries, the problems are compounded. Issues of balancing rising prices with sub-par economic growth are further complicated by trade-offs between sustainable macro-stability and poverty alleviation. A number of major developing countries are facing this dilemma. The emerging and particularly lower-income countries are facing this dilemma. The emerging and particularly lower-income countries are facing a heavy of burden of rising food prices, which often force a trade-off between balancing the alleviation of the impact of food prices on the poor, and maintaining sustained macro-equilibria.

The recent crisis has highlighted the need to boost the effectiveness of the Fund's surveillance and to enhance its influence. The Fund needs to reassess the tools at its disposal, including the new surveillance decision and the work on macro-financial linkages, to ensure their adequacy and relevance, and it needs to maintain equality of treatment - only then would policy makers avail themselves of an independent and trusted assessment of their economies. To meet the changes in the global economy, greater emphasis will be needed on regional surveillance that would focus staff on a narrower set of immediately relevant issues and thereby sharpen staff's analysis and assessments. In this respect, the Fund's role should not be limited to resolving crises. It should extend to preventing them or at least anticipating them early enough for proper policy response.

Another important priority is the work on the low-income countries where the Fund can refine its role to be more effective and to better assist in policy formulation within the institution's competence. While the Fund has been largely successful in assisting to bring about stability in many of these countries, there is a need to strengthen these countries' institutional structure and to promote growth-enhancing structural reforms through capacity building, something the Fund has not practices to the fullest to date. Sufficient emphasis on these areas will be key to raising these countries' living standards and improving their economic management.

Governance reform is another area. The Fund began a welcome reform of its budget, particularly its income and expenditure model, as well as its quota and voice reform. These initiatives will be key to the restoration of the Fund's legitimacy and credibility. The institution should continue in strengthening its quota and voice reform, while maintaining as wide a representation in its board as is necessary to maintain legitimacy.

In short, the Fund needs to analyze the causes behind the current financial crisis that broke out in mid-2007-which in my view confirms the beginning of a new economic era-and prepare itself to guide and advise members to pursue policies aimed at avoiding such crises. When they do occur, the institution should have the capacity in collaboration with the relevant global partners to address them effectively and swiftly, in a fashion comparable to the Fund's intervention during the debt crisis of the eighties and nineties. A global economy requires global cooperation and

coordination to function effectively.

Excellency, I thought these few remarks might provide us with a brief framework in thinking about the future of the IMF and its role in maintaining global stability.

Please accept the expression of my highest consideration.

Yours Sincerely,
Youssef Boutros-Ghali
(signed)

End text.
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